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SUBJECT: THAILAND BUSINESSES TO WAIT OUT POLITICAL CRISIS BUT WORRY
ABOUT LONG-TERM IMPACT

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¶1. (SBU) Summary: Thailand's political stalemate has had a somewhat expected immediate impact on certain segments of the Thai economy. Of greater concern to the entire business community, however, is the stalemate's potential long-term economic implications. Prominent business leaders in Thailand concur that, unless a resolution to the political crisis is reached soon, Thailand may lose its good name in the eyes of investors, creating economic difficulty for the future. They point out that business sentiment today is more negative than after the 2006 coup. Since the coup brought a definitive, albeit temporary, conclusion to the political turmoil at the time. In comparison, the uncertainty and unending twists in the current political battle have caused Thai (and foreign) investors and local business leaders to adopt a "wait and see" attitude toward investment. End Summary.

¶2. (SBU) Comment: Thai business leaders long for certainty and stability. As one leader put it, "the coup in 2006 brought calm." Unfortunately for them, the current crisis has no end in sight. Until a lasting political resolution is reached, Thailand appears destined to suffer the opportunity cost of lost investments and continue to use up existing capital. While the immediate impact may be manageable, persistent turmoil would affect Thailand's future growth and outlook. End Comment.

Immediate Impact

¶3. (SBU) Post has surveyed a broad array of leaders in the local business community, both Thai and foreign, to gauge their level of concern over the on-going political crisis. Many report experiencing some immediate losses (still being counted) from the crisis as anti-government protests paralyzed Thai infrastructure for several days the first week of September, with protestors shutting down regional airports, railroads, and ports causing losses for industry. Most notably, ships bound for Bangkok Port had to be diverted to Laem Chabang Port, resulting in delays. Thai news agencies report that Thongyu Khongkant, Secretary of the Land Transport Federation of Thailand, an organization representing transportation companies, may file an 8 million dollar lawsuit against the Port Authority of Thailand Labor Union for losses. Contacts in the tourism sector also claim inbound tourism has dropped off as images of stranded tourists at Phuket airport made the news and scared away potential visitors. Occupation rates at some five-star hotels are reported to be less than 20% (reftel). The Federation of Thai Industries (FTI), a prominent organization representing industrial companies, states that all the key industry groups have been affected by the political turmoil, with importers and traders considering shifting new projects and trade to other countries.

¶4. (SBU) Nevertheless, many Thai companies seem able to weather these short term losses. Various prominent Thai business leaders, including from the retail and medical equipment sectors, indicate their firms are only experiencing minor slowdowns in business. Many companies claim they have not altered their established business plans as a result of the political situation. One company representative in the auto supply sector indicated that certain production could easily be relocated to neighboring countries should the unrest continue or escalate, though for the moment, capital plans are not being altered. Pridiyathorn Devakula, former Governor of the Bank of Thailand, noted that despite the turmoil since the PAD protests began several months ago, second quarter GDP growth, although down 0.6% from quarter one, was still at 5.3 percent.

Long-term Impact

¶5. (SBU) The long-term implications of the political crisis on Thailand's economy may eventually outweigh its immediate impact. Mr. Arin Jira, director of the ASEAN Business Advisory Council, claims that while Thailand does not appear to have experienced much capital flight as a result of the political crisis, new investments have tapered off as companies wait out the crisis. Those who have committed to Thailand are staying, but potential additional business ventures have been put on hold.

¶6. (SBU) An indication of this phenomenon is reflected in Thailand's capacity utilization rate. Dr. Deunden Nikomborirak, a researcher at the private think tank Thailand Development Research Institute, confirmed to Econoff that Thailand's industrial capacity utilization rate is over 70 percent, a sign that Thailand is using up its excess capacity while not generating new investment. General economic theory posits that 80 percent capacity utilization rate signals full capacity and anything over 70 percent is a cause for concern. A leader of the Thai Bankers' Association echoed this point with

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concern. Similarly, the Thai Chamber of Commerce released a public statement calling for a peaceful resolution to the political crisis and claiming that while established businesses are continuing their operations, new investors are avoiding Thailand.

¶7. (SBU) Mr. Pornsil Patchintanakul, the Deputy Secretary General of the Thai Chamber of Commerce, echoed the sentiments of many Thai business people when he expressed concern that the drawn out political upheaval will irrevocably damage Thailand's reputation as a stable business environment. He explained that while the political crisis is "business as usual" for companies accustomed to operating in Thailand, for those not familiar with Thailand's history of coups and political reshuffling, the scene appears increasingly confusing and dangerous.

What Do Businesses Want?

¶8. (SBU) Whereas many analysts viewed the business elite as being anti-Thaksin during the 2006 coup, this time around most business and industry leaders profess no political affiliations. They just want a speedy resolution and claim a lifting of the state of emergency would be the first step towards restoring calm. Mr. Jira, for example, stated that while the state of emergency has little impact on the daily life of Thais, potential foreign investors hear the phrase "state of emergency" and imagine a "war zone."